Gains and Losses

It would probably be ideal if business and life were as simple as producing goods, selling them and recording the profits. But there are often circumstances that disrupt the cycle, and it's part of the accountants job to report these as well. Changes in the business climate, or cost of goods or any number of things can lead to exceptional or extraordinary gains and losses in a business. Some things that can alter the income statement can include downsizing or restructuring the business. This used to be a rare thing in the business environment, but is now fairly commonplace. Usually it's done to offset losses in other areas and to decrease the cost of employees' salaries and benefits. However, there are costs involved with this as well, such as severance pay, outplacement services, and retirement costs.

In other circumstances, a business might decide to discontinue certain product lines. Western Union, for example, recently delivered its very last telegram. The nature of communication has changed so drastically, with email, cell phones and other forms, that telegrams have been rendered obsolete. When you no longer sell enough of a product at a high enough profit to make the costs of manufacturing it worthwhile, then it's time to change your product mix.

Lawsuits and other legal actions can cause extraordinary losses or gains as well. If you win damages in a lawsuit against others, then you've incurred an extraordinary gain. Likewise if your own legal fees and damages or fines are excessive, then these can significantly impact the income statement.

Occasionally a business will change accounting methods or need to correct any errors that had been made in previous financial reports. Generally Accepted Accounting Procedures (GAAP) require that businesses make any one-time losses or gains very visible in their income statement.